The death of traditional retail: can the phoenix rise from the ashes?

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Synopsis – the only way to breathe new life into traditional retail

Traditional retail is on its deathbed - bleeding sales to online competitors, or at best just self-cannibalising through its own (usually lower margin) online channels. Add to this constantly increasing rents, rates and staffing costs and the situation looks decidedly terminal.

So, is there some magic bullet that can bring the patient back to the brink, or are the recent store closures and cuts announced in the UK by Sainsbury's and the US by Macy's, Sears and JCPenney[1] a signal of the end?

Ironically, it could be online sales themselves to actually help physical retail outlets to survive, albeit in significantly revamped form. The key to this success lies in data.

While traditional retail stores are collapsing under multiple pressures, online sales generate a constant stream of data that can be continually applied to improve the effectiveness and cost-efficiency of investments. Any traditional retailer who fails to see the potential of this mass of data will have just one question remaining: 'when', not 'if', they will close down.

If there is to be a future in traditional retail, it has to replicate the customer understanding of online. Contrary to what many businesses believe, it is possible to achieve this – but only if retailers rethink how they capture and use Big Data, and then add to this a shift beyond basic enterprise information systems towards more dedicated, issue-specific analytical algorithms.

Introduction

To make things simple, let us assume that traditional retail – meaning national chains of trusted brands, in multiple formats, with endless product ranges, competitive prices, great promotional deals and winning face-to-face customer service – is doomed. Online retailing has not only created a channel in itself, but has provided all customers – wherever they chose to shop – the potential to compare ranges, prices and delivery options in real time.

As a consequence of this always-on interaction, digital channels receive the benefit of delivering 100% visibility of customer intentions and behaviours, allowing constant optimisation of the customer offer and supporting operational processes that can improve sales impact and investment efficiency even further.

In contrast, traditional retail is stuck with the worst of both worlds – the rising costs of expensive physical retail estate dependent on staff, but without the data stream that allows constant optimisation of the offer. There are some ways through this – such as company-wide loyalty schemes – but these are almost always margin-

[1] Reference: http://uk.businessinsider.com/department-store-sears-macys-jcpenney-closures-history-2017-8

diluting as the customer requires significant, ongoing incentives to use the programmes regularly.

As a result, the modern retailing landscape is littered with the consequences of these trends – physical stores closing in their hundreds, while online competitors are seemingly able to survive (and even thrive) in hyper-competitive cyberspace as a result of improved efficiency driven by data.

The only hope – believing in the power of customer data

It will come as no surprise that the solution to this challenge lies in a deep understanding of customer needs and application of this insight to commercial decision-making.

This paper focuses on the challenge of understanding customers without having a robust 100% picture of their behaviours. However, before we go there, we should first recognise that even when an organisation can tap into massive volumes of customer data, they are still challenged on turning this into profits.

Data is simply a digital version of the real world – but a world where the speed and scale of transformation can be scarily fast, as was the case with the recorded music industry (for example). At the same time, the complexity of data means that many people misunderstand the impact of data on management and simply assume that greater data = greater profits.

Effective use of data means understanding the interplay between automated machine learning and managers' use of information to make better decisions.

Organisations must remain confident in their ability to progress further with better data, even as the path constantly evolves, few certainties exist on the end-destination, and sometimes even being unclear on exactly at what point of the overall journey one may be.

Belief that data-driven insights can provide a multiplier on the effectiveness of management decision-making is absolutely crucial: first, traditional retailers need to rediscover their belief in getting closer to the customer; then, they need to face up to the challenges of achieving this. With this rallying cry in mind, let us begin to explore how traditional retailers and their suppliers can unlock the full profit potential of Big Data – even when the actual data itself is limited.

Succeeding, but with 'limited Big Data'

The saying goes that you can only manage what you can measure. In pure-play digital environments, every interaction can be interrogated and as a result interests, needs and behaviours can be modelled to determine how to generate a more profitable outcome.

There is not a single consumer sector that has not been fundamentally transformed by this new ability. However, just because a digital pathway exists, this does not necessarily explain all the interactions between a brand and its customers. In fact, ~85% of all grocery transactions and ~70% of fashion transactions take place in a traditional, physical retail environment. Obviously, these should be prime targets for data mining, but there still are relatively limited choices to capture rich, customer-specific data from face-to-face transactions.

Loyalty schemes were the first – and, in channels like grocery, the most successful – ways of linking till sales with individuals. However, the combination of more frequent trips, increasingly to convenience-format stores, and the declining reward levels offered by these programmes, mean that even the best schemes are facing long-term decline. At the other end of the technology spectrum, mobile phone tracking and facial recognition software are still in their infancy and fraught with privacy concerns and risks.

'Traditional' formats and channels compete with data-rich, digital-only competitors. However, given that so many businesses operate across multiple channels – online and offline – the more relevant question is not whether to live with a partial view of their customer, but how to build out a holistic 360-degree view from limited data.

Creating a 360-degree view from limited data

At Evo, we work every day on the challenge of partial data within traditional retail – needing to deliver business-wide recommendations whilst ensuring that these are not biased towards what our clients have been able to measure.

In our experience there are five pillars to build the data infrastructure:

1. Relational data	Linking digital and physical sales to a certain purchaser, tracing returns, and adding the other customer interactions with the retailer. Even if incomplete or partially dirty, these data sets typically are foundational given their very strong forward-looking predictive power.
2. Basket level	Modelling some questions – such as pricing elasticity – at the basket rather than the individual customer level. This can be a highly effective data set for planning & evaluating promotions, although it does have the limit of needing to work at an aggregate level or at least with very large customer segments/clusters, in order to drive meaningful insights.
3. Payment data	Linking either the full 16-digit number or even just the last four digits & card type, when done in full compliance with local data privacy laws, can often allow to build a joined-up picture of shopping patterns.

4. Product data	Adding any tags, images, size, price, make, brand, style, availability, contents, promotions etc. to machine learning's ability to connect the dots across different patterns more effectively. Product range information is typically overlooked but crucial.
5. Other sets	Leveraging other 'hyped' data sets like social media feeds, or even simply weather, is often helpful as an addition to the other pillars described above. However, the return on investment of collecting and storing the data tends to be diminishing.

The key to success – Big Data, focussed thinking

It would be reasonable to assume that Big Data might even be considered almost an end in itself. There seems to be a certain logic attached to the idea that the more data, the more commercial success. Yet, in practice, the ability of companies to unlock incremental profit is often limited by the poor choices they make on how to interrogate the data available.

Put simply, most organisations make one of two decisions that allow the richest insights to 'fall between the cracks':

1. They restrict themselves to large enterprise analytical solutions that typically focus on big picture trends and patterns over time, but are not designed to deliver rich, actionable and ultimately profitable recommendations into 'deep dive' commercial questions such as pricing, promotions, range and demand forecasting

2. At the other end of the spectrum, in-house business analysts tend to look at the questions their management team judge as important – often point-in-time performance of promotions or store openings, rather than drawing together multiple sources of data to answer key strategic businesses that demand a combination of analytical and commercial understanding.

In this fast-evolving landscape, we believe a new middle ground is opening up – one where specialist software is brought in to complement both enterprise platforms and in-house analysts, answering some of the most fundamental commercial questions that can unlock incremental profit:

- **Pricing for maximum profit** – how can recommended retail price help to establish an attractive, competitive benchmark in the customers price?

- **Effective discounting and promotions** – using temporary offers to drive short-term volume – but without damaging the overall value proposition and long-term health of the brand
- **Customer segmentation and targeting** – identifying which groups represent the highest growth potential, and how to target messages / offers towards them
- **Stock forecasting and allocation** – determining how much of each product line to forward-order, then how best to allocate specific volumes of stock to each individual channel or store
- **Marketing spend effectiveness** – ensuring that investments in each individual marketing or sale tool are being correctly attributed to the eventual sales outcome.

Conclusion – Four questions every retailer should be asking

Nobody would challenge the headwinds facing traditional retail operators – prices are more transparent, promotions more temporary and costs relatively higher than they were in the recent past.

However just because online channels can churn out petabytes of data it does not mean that they will inevitably succeed. Retailers need to have a robust understanding of the data they currently gather and also a clear vision about what future information they could collect (and why?).

So, if you feel your business still hasn't got to grips with Big Data, here are four questions you need to ask to help you get on track:

1. What are the critical business questions that customer data can help to inform?

2. What data variables provide a genuine source of competitive advantage – how is the business prioritising these?

3. How does the business ensure that Big Data provides a practical roadmap for prioritising which variables to capture and use, rather than assume 'all data matters equally, so capture everything'?

4. How is the business ensuring that its analytical approaches are 'fit for purpose' by using the right tools and people to 'crack' questions at the right level of detail?

About Evo Pricing

Our exciting formula: Success = Data x Artificial Intelligence x Human intuition.

Our world-class, but also simple to use, predictive tools help our clients achieve extraordinary results and sustain them over time, with weekly updates and monthly in-depth reviews on top of a distinctive “unlimited support” delivery model.

Our story starts in 2009, when our founder Fabrizio Fantini, while jointly pursuing his Maths PhD and Harvard MBA, discovered new algorithms that could outperform even the most complex and expensive commercial pricing systems.

On top of analytical excellence, we deliver a distinctive business model: value creation crucially also depends on the people side of the equation, as our founder learnt in his 10 years at McKinsey, consulting for global CEOs. Therefore, our algorithms build on human intuition, instead of aiming to replace it.

And so, our unique Evo Pricing approach was born.

Better management decisions, every day. Powered by artificial intelligence software, developed in partnership with the very best academics globally, building a new man/machine alliance.

Today we have 2 offices (London, Turin) and 120 man-years experience between engineers, data scientists, academics and business experts, who all share a common goal: relevant business decisions, driven by data and CEO-quality insights.

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About the Author

Robert is a successful entrepreneur with a track record of creating value from customer data.

After 13 years in the retail data space, in 2001 Robert founded what became emnos - the leading provider of ‘customer centric’ services and decision-support tools. Clients included top retailers (Target, Walgreens, Morrisons, Waitrose, Boots, Co-operative Group) and their FMCG suppliers. The business was sold to Palamon Private Equity in 2007 and sold on to American Express in 2011.

Robert then moved on to an executive role at private equity-owned RAC Motoring Services, as well as overseeing a portfolio of private investments.

At RAC Robert held the executive position of Managing Director Motoring Services. In this role he oversaw the data assets of RAC’s 8.2 Million members and also ran six data / digital businesses – RAC Cars, the UK’s second largest classified site; RAC Vehicle Check, the UK’s largest mechanical inspection service; RAC Dealer Passport, the second largest vehicle history check; Loans; Brand Licensing and RAC Shop. He was involved in the acquisition of RAC by Carlyle Private Equity in 2011 and successful exits to Singapore sovereign wealth fund GIC in 2014 and CVC Partners in 2016.

Outside of this Robert manages a private portfolio covering early-stage retail technology start-ups; lifestyle & hospitality investments; commercial & residential property; and classic cars.

Robert is an elected member of the Young Presidents Organisation and regular media contributor (and TED talker) on the use of customer data. He lives in the UK and US with his wife and four children.